

BOARD OF PUBLIC WORKS

Vision

The Board of Public Works exists to improve the quality of life of the customers we serve.

Mission

We are dedicated to providing our current and future customers with utility and other value added services in a safe, reliable, and economical manner consistent with sustainable growth, community involvement, and environmental stewardship.

**Regular Meeting of the Board of Public Works was held in Lewes City Hall, Council Chambers,
114 East Third Street, Lewes, Delaware on Wednesday, May 25, 2011 at 7:00 p.m.**

Board Members Present:

*C. Wendell Alfred
James (Jay) Carmean
James Gayhardt
D. Preston Lee
James N. Richmann
Gary Stabley
Candace Vessella*

Ex-Officio Members Present:

*James L. Ford III, Lewes Mayor
Fred Beaufait – Lewes City Council
Ted Becker – Lewes City Council
Victor Letonoff, City of Lewes Council
Barbara Vaughan – City of Lewes Council
Kenneth D. Mecham, General Manager
Darrin Gordon, Assistant General Manager
Glenn C. Mandalas, Legal Council*

Others Present:

*Walter Baumer – Severn Trent
James E. Main – BPW
Kuno Sumpf – BPW
Gordon Davis – Lewes Fire Department
Henry Evans – Cape Gazette
Steve Smailier – Duffield Associates
David Athey – Resident
Mike Clemmer – Resident
Tim Crowley – Resident
Linda and Robert Gibson – Residents
Bernie Gilman - Resident
Joe Hoechner - Resident
Linda Lee – Resident
Jack Leshner – Resident
Adrian Nakayama – Resident
Mr. and Mrs. Petterson – Residents
Jim Roberts - Resident
Barry and Elaine Simmerman – Residents
Cathy and Ross Tatman - Residents*

1. Welcome, Call Meeting to Order and Pledge of Allegiance

At 7:00 p.m., President Stabley welcomed everyone, called meeting to order and led Pledge of Allegiance. Moment of silence held for everyone serving our country near and far and for BPW members who have passed on.

2. Roll Call

President Stabley stated all Board Members [James Richmann arriving later], Mayor James Ford, General Manager Ken Mecham, Assistant General Manager Darrin Gordon, Glenn Mandalas, Legal Counsel are present.

3. Presentation of Certification of Election Results (D. Gordon)

Lewes BPW election held on Saturday, May 14, 2011 during hours between 8 a.m. and 6 p.m. elected two Lewes Board Members who will serve two years each on BPW. Board of Election consisted of Bill Landon – Inspector; Ann

Moore – Judge; Dave Bernheisel – Judge.

Darrin Gordon presented the Certification of Election Results signed by Bill Landon, Board of Elections Inspector: **Preston Lee** and **Candace Vessella** are the elected Board Members. Total number of votes: 635 [1,274 registered voters with 546 votes and 89 absentee ballots - one absentee ballot was voided]. Candidates: Joe Hoechner [76 votes]; Preston Lee [383 votes]; Jack Leshner [295 votes]; Candace Vessella [400 votes]. President Stabley congratulated the candidates for running and those elected to the Board. Let the record show “It is indeed a pleasure to have you come on Board and a pleasure for me to leave the Board.” Mr. Gayhardt motioned to accept the election results, Mr. Carmean seconded, and motion unanimously carried.

4. Swearing in of New Directors (D. Gordon)

Darrin Gordon swore in Preston Lee and Candace Vessella in to office as Board Directors.

5. Election of Directors of the Board and the Appointment of Principals to the Divisions (J. Carmean)

Mr. Carmean announced the newly elected Directors of Board and Principals to Divisions:

- | | | |
|--------------------------------------------|-------------------------------|--------------------------|
| a) President: | [Currently Gary Stabley] | C. Wendell Alfred |
| b) Vice President: | [Currently James Carmean] | Candace Vessella |
| c) Secretary: | [Currently C. Wendell Alfred] | Preston Lee |
| d) Treasurer: | [Currently James Richmann] | James Richmann |
| e) Board Member: | [Currently James Gayhardt] | |
| f) Division Chairs: | | |
| Administration Principal: | [Currently C. Wendell Alfred] | Candace Vessella |
| Electric: | [Currently James Carmean] | James Richmann |
| Water, Wastewater & Stormwater: | [Currently James Richmann] | Preston Lee |
| Asst. Water and Wastewater: | [Currently James Gayhardt] | |

Candace Vessella motioned to accept the new Directors of the Board and Division Chairs; Preston Lee seconded; and motion unanimously carried.

- Preston Lee made a statement for the record about his past experience. He has had a business association with one of the Board’s consultants. From 1975 to 1993, he had a consulting firm with a good friend and past business partner, Russ Tatman. That firm was acquired in 1993 by a firm out of Denver, Colorado, which was subsequently purchased by a firm out of San Francisco, URS Corporation, who works for BPW. He continued with the firm managing the office until 2001 as the Office Manager and Vice President of URS. In 2001, he left and started his own firm and used URS quite a bit for a subcontractor on work he designed. Over past couple years has not used them and has no financial connection with them other than the past business connection which no longer exists. He has no benefits from them and therefore has nothing to gain from them at this point. Unless other members of the Board or the Solicitor feel he should recuse himself on anything to do with URS, he plans to vote on URS issues. He does not see a conflict unless anyone else does.

- Solicitor Mandalas responded recusal is typically left to the member. It is appreciated he made the statement and it is appropriate to make this statement at this time. Given his current status and the length of time that has passed since involvement with URS, there is no need for you as a new Director to recuse.

6. Recognition of Retirees: Barbara Catts, Hubie Galati, Roy Lynch, Carl Schirmer and Irving Walls. (Ken Mecham)

Mr. Mecham said BPW will have another opportunity to recognize the retirees at a luncheon. Board feels these retirees have made tremendous contributions and wants to recognize them in this public and formal setting. It is a very significant milestone for BPW they have accepted retirement and Board wishes them well.

President Alfred added the retirees have contributed thousands and thousands of works hours to the City and to the BPW and they are responsible for the Board’s continuing services. They will be missed.

7. Revisions and/or Deletions to the Agenda

No revisions and/or deletions to the agenda.

8. Reports

- a) Receive the General Manager’s Monthly Report.
 - 1) Recognition of Kuno Sumpf for completing his third year of the Delaware Technologies Certified Plumbing course.

Darrin Gordon recognized Kuno Sumpf for working on keeping up his skills and improving his skills. Kuno Sumpf has completed his third year of a four-year apprentice program with Delaware Technology Center and is one of a few students to have perfect attendance. Certificate was given to him for recognition as one of the quality BPW employees.

- b) Receive Severn Trent’s Report for April.

There were no questions or comments. President Alfred explained every month Severn Trent issues a report listing the effluent quality and daily flows. Preston Lee requested more detailed information be given in future.

- c) Receive Principals Reports – none.
- d) Receive Secretary Report – no Secretary Report.
 - 1) Approval of Minutes dated April 27, 2011

James Carmean motioned to approve the minutes, Candace Vessella seconded, and motion carried.

e) Receive Treasurer's Report

OLD BUSINESS

9. **It is recommended that the Board of Public Works adopt Resolution 11-005, suspending the rate increases in the Water rates as prescribed in Resolution 10-003, Sewer rate increase as prescribed in Resolution 10-004 and maintain Electric rate as prescribed in Resolution 10-005 (Alfred)**

INFORMATION:

Preston Lee read Resolution 11-005 into the record [A correction to delete second ~~2011~~ in 5th WHEREAS paragraph, line 2, was noted.]

ACTION:

Candace Vessella motioned to approve Resolution 11-005 as read with correction; James Carmean seconded; and motion carried. President Alfred asked for questions/comments; none. Adoption of resolution passed.

NEW BUSINESS

10. **The Lewes Fire Department requests a variance in the BPW impact fee of \$1,350.00 for a new meter installation.** (D. Gordon, G. Davis)

INFORMATION:

- Darrin Gordon said there are certain impact fees for additional services we provide with water and wastewater including the treatment to maintain the system for new customers; the water impact fee helps pay for the tank, the wells, and for the infrastructure. The Fire Department has applied for and received a meter serving a dock at the end of Pilottown Road with an impact fee charge. The Fire Department requested this fee be waived. When told BPW impact fees are established by resolution; Fire Department asked to present this request to the Board.
- Gordon Davis, President of Lewes Fire Department, presented the request with some history. In December 2009, took delivery of a new 45-ft. fire rescue boat now moored at US Coast Guard Station at 802 Pilottown Road; a lease agreement was established with the Coast Guard in 2001 when he was Fire Chief. Part of the fire boat venture is a port security grant totaling about \$275,000 including funds for building and servicing the dock next to DNREC building near the State boat ramp. We did not budget for the impact fee because it was anticipated; we operate on a very tight budget. Additional information is that the dock will only be used to moor the fire boat which will be available to the communities 24/7 including BPW for public services. There will be no private usage or rentals just public emergency services to the citizens of this community. We feel our situation is unique. We are a non-profit organization.
- Board discussion: (1) There are no waivers involving other non-profit organizations even though many requests; (2) BPW gives a \$25,000 annual gift to LFD; (3) Mayor Ford asked for Board's support since this is not a precedent-setting situation as it involves public safety. BPW already designates contributions to LFD as a unique non-profit organization. City already contributes \$5,000 more than BPW to LFD so this is an opportunity to catch up. (4) BPW increase current contribution rather than making an exception. (5) James Richmann recused himself because of possible conflict of interest. More discussion followed.

ACTION:

President Alfred requested a motion to accept the LFD's request for a variance of \$1,350 for a new meter installation. James Carmean motioned to increase the annual contribution from \$25,000 to \$26,350. Solicitor Mandalas proposed making the motion the annual contribution would be at least \$1,350 in order not to include an additional obligation within this motion. Preston Lee stated it is a bad precedent to set. Motion is denied.

11. **Review of the preliminary financial reports for the April 1, 2010 – March 31, 2011 fiscal year.** (K. Mecham)
Ken Mecham specified numbers presented are based on auditors' preliminary report; important because there are some minor differences between information incorporated in the Board packets that do not have the final entries yet from the auditors and numbers in this presentation. The auditors are scheduled to present their presentation in June. These reports are being shared because the numbers are part of my watch.

- Good news is each utility division had a positive margin available for reinvestment. Electric margin as well as revenue and expenses are the greatest. Even Stormwater utility ended up being virtually neutral. Information is broken down for expenses and revenues in graphs to see where money is coming from and more importantly the categories.
- Electric revenues show residential as the major source of funds followed very closely by industrial segment.
- Clarification for differences in classifications between residential, commercial and industrial: Residential is self-explanatory; difference between commercial and industrial is related to actual customer demand. Customer having a demand for 50 kW during a 15-minute period becomes a demand-meter customer classified in the industrial class; therefore, a restaurant could be classified as industrial even though a commercial business.
- Expenses: Cost of purchased power is by far the major expense.
- Water Department has a slight shift in the make-up of where dollars and cents are calculated for revenue. Residential is the larger share, followed once again by industrial; but commercial using same distinctions in classification has dropped significantly as a piece of revenue pie as related to the Electric and Water. Other includes impact fees, sale of

assets or any cost recovery not directly related to operations; that number with a lot of impact fees could be fairly significant as far as revenue is concerned. Water expenses were referenced for everyone to review.

- Sewer Department has an even greater shift between classifications. Now, residential revenues are by far the most significant portion. Sewer expenses were referenced for everyone to review.
- Payroll and labor expenses for both Water and Sewer are typically the largest category. System is in excellent shape and as a result the cost of maintenance, personnel, etc. tends to be the largest component.
- Stormwater once again shows a shift even farther for sources of revenue. Even though not a significant sum of money at \$135,000, but 82% of funds are from residential sector. Again, Stormwater expenses were referenced for everyone to review.
- Each utility had a situation where revenues exceeded expenses with a margin for reinvestment.
- Statement of Net Assets from the preliminary audited report: Line with red numbers for Water, Sewer, and Stormwater each show a margin for reinvestment, but cash from cash flow perspective exceeded revenue received. Sewer shows about \$1.5 million, but cash flow was above and beyond the margin for reinvestment. As a whole, this is a balance sheet item moving from one element on balance sheet to another but it still necessitates the need for cash.
- Long-Term Debt: During period of April 1, 2010 through March 31, 2011, BPW retired \$2.5 million in debt. Remaining balance of long-term debt at this point is \$21,122,000; however, this statement of long-term debt as of March 31, 2011, do not include action taken in May 2011 at Lewes City Council Meeting of transferring \$2.25 million of this debt to the City.
- As a result, Statement of Debt Service Requirements shows an abnormal number of \$3 million for 2012; subtract the \$2.25 million leaving principal obligation for 2012. A new Debt Retirement Schedule
- Monies recently put into escrow for payment of General Obligation Bonds [GOB] are included in Debt Service Schedule as funds that are due. The Bonds Payable Schedules currently do not reflect a restatement but there is an auditor notation about future changes.
- These numbers will be restated because of a new Debt Retirement Schedule resulting from transfer of funds and the establishment of an escrow account for General Obligation payments.
- Ken Mecham added a final comment regarding year ending March 31, 2011 involving month of March and month of February. DEMEC studies all the municipalities in Delmarva with regard to energy costs based on 1,000 kW hours for residential customers. For each of those two periods, Lewes BPW had the lowest calculated amount so currently our electric rates are extremely competitive. This indicates it takes 12 months to experience the full effect of the drop off in wholesale energy prices. President Alfred suggested this information should be on BPW website.

Going forward, detailing where the Board and Darrin Gordon will be working:

- A phenomenon occurred this last year regarding margin for reinvestment specifically with Electric. Green line represents wholesale cost of energy; our purchase contract is a full-requirements and fixed-price contract. BPW pays "X" number of dollars per kW hour to wholesale supplier and they agree to give us all we need at a fixed price whether or not peak demand. However, wholesale energy price changed; beginning June 1, 2010, price went down significantly which is represented by this line showing a significant drop for approximately one year. Because of tremendous swings, we bill our customers by using a 12-month weighted rolling average. Each month use a 12-month period by starting with current month and add 11 months for total kW hours used with total dollars paid in that period; divide one by other to come up with average energy costs for this billing period. Costs of energy may be higher or lower. June 1, 2011, wholesale energy costs will increase slightly staying that price for a year; we will not be collecting our costs but prices will gradually rise until costs are covered. Concept is complicated so will answer questions.

Discussion:

- James Carmean suggested purchased power is a pass through; Board does not make a margin on purchased power although a little in the rate base. With purchased power as a pass through, net is still \$1.4 million. If purchased power goes up and curve is not used, Board will not suffer any net but will pass through to the customer after the 12 months. Focus should be on Electric viewpoint a consultant gave to Board recommending what to achieve in a net basis by maintaining a net increase to assets of about \$550,000 a year. Reconcile that against \$1.4 million.
- Darrin Gordon needs to come back to Board explaining why that level of net is necessary. Last year it was \$955,000 and this year it is \$1.4 million. James Carmean is not advocating a reduction to take care of all of that but he would advocate there is some margin.
- Review should be made of April 27, 2011 meeting minutes and the final auditor's report when presented in June 2011 by looking at the 2011/2012 budget in light of changes. Electric needs examined.
- Public does not have concerns on electric rate but on the sewer ready-to-serve charge. Rates need reduced in way to benefit largest number of citizens.
- James Richmann corrected total amount to be a positive net margin of \$1,614,572 ± minor adjustments. Even though an advocate of this process, it appears the 12-month smoothing average is actually interfering with ability to make projections and then make an informed decision from a Board perspective on what rates should be. There are options to correct the situation. Maybe, Board should think of an accelerated rate reduction; make purple area even bigger.
- James Richmann determined there was about \$550,000 in excess positive margin made in fiscal year 2011. The new Board needs to find an equitable and easy-to-understand way to rebate back to citizens. Possibilities: (1) Accelerate debt service even further and put it in the escrow account because it will pay dividends every year for the life of then indebtedness. (2) Write everybody a check. (3) Figure a way as a matter of public policy – not as an issue of business

management – lower the public ready-to-serve charge for the sewer. That is what we should do; we will figure it out.

- James Carmean suggested with the final audit and the previous Electric Consultant Study, Darrin Gordon should schedule a public workshop to bring the Board up to speed on the finances. At that time, Board could visit the 2011/12 budget. There have been a number of changes beyond the Electric situation including personnel changes and different nuances since approving the budget in March 2011.

12. Open forum/general discussion on impervious surface methodology as an approach to future storm water rate revisions. (D. Gordon/S. Smailer)

Darrin Gordon informed everyone BPW has commissioned Duffield to review methodology used for stormwater charge. Currently, it is a flat rate. Customers have come to Board with two issues. (1) Inequity: A commercial customer who is down on the bridge by the canal is charged \$10. Then, some industrial people who have very large areas are being charged \$20. (2) As a stormwater utility, part of resolution is that we, as management, have ability to handle complaints. Since there are no mechanisms or standard methodologies, Steve Smailer has a report on findings.

Steve Smailer, Duffield, presented report:

- Charge is to develop a process for BPW to evaluate the relative contribution on a parcel-specific basis how much stormwater is running off based on the various coverings and working parcel by parcel.
- Methodology needs to be technically defensible to help BPW make evaluations and informed decisions.
- Report is a work in progress. Even though close to completion, there are more issues to work out.
- Methodology will give preliminary ideas of what is involved.
 - > Do as cost-effectively as possible looking at available data and possible solutions.
 - > Available data: In 2007, on a five-year cycle, State of Delaware does aerial photography over entire state that included statewide impervious coverage. County has the tax parcels. City has the billing addresses of residents and types of property.
 - > Limitations with data: 2007 time frame is currently out of date. Aerial resolution is quite good but not perfect.
 - > From photographs, there is an interpretive impervious grid.
 - > Picture of Pilottown reserve: Green is impervious coverage; gray is grass area and matches very well. Picture of County Tax Parcel does not match perfectly. Methodology to address the inherent inaccuracies was necessary.
 - > Solution: Inflate parcels by 10-ft. internally and remap ignoring the 10-ft. perimeter around the property and focusing on amount of impervious coverage at the center. Remapped every parcel throughout the City.
 - > Red dots indicate impervious area, green is grass area; matches very well.
 - > Every parcel has a 10-ft. internal portion with a 10-ft. buffer.
 - > GIS software designates total area of each parcel, the internal buffered portion, the impervious portion, and the pervious portion. From that information, percentages are identified in addition to the percent assessed. A very large parcel with a 10-ft. buffer will have more located within the buffered area than a very small parcel. Therefore, a large parcel will have a higher percentage of the property assessed versus a small parcel.
 - > Currently reviewing by BPW types of use: Residential, Industrial and Commercial. County provides the GIS parcel information with owner name, owner address, subdivision and description. BPW added billing name, address, and category; matching is not easy and is the work in progress. Mapping and impervious assessment is completed.
 - > Residential parcels: Dark Green = 0-20% impervious; Light Green = 20-40%; Yellow = 40-60%; Orange = 60-80%; Red = 80-100%. 100% impervious means totally paved; 0% is open space. Every parcel shows: Tax parcel ID, percentage of pervious coverage, impervious acreage, buffered acreage, total parcel acreage, and the assessed portion. A portion of the approximately 2,700 residential parcels is shown.
 - > Commercial areas include two large parcels: a portion of Cape Henlopen State Park and a portion of University of Delaware. From Board's billing information, UD has both industrial and commercial uses on the property; for purposes of this review, property use is designated as commercial.
 - > Residential showing 0% = open lot not developed as of 2007. Commercial has a higher percentage of impervious on average. Industrial has some impervious areas at 97.8% and some at 44-50%.
 - > Beebe Hospital area shows open area in green and impervious in red; percentages are same as residential.
 - > Second Street, parks, and Cape Shores were represented.
 - > Detailed review of use type categories is still needed.
 - > BPW has to have internal capabilities to use the data sets; all generated data has tools to use interactively. Metadata means formalizing everything accomplished in a reproducible process for future use.
 - > Finally, green is residential parcel use, blue is commercial, and red is industrial. "X" axis is % of impervious coverage going from 0% to 100%; "Y" axis is percentage of parcel use going from 0% to 40%.
 - > Residential has a normal distribution with an average of 50% impervious. Commercial is skewed with a much higher percentage of impervious and parcels are usually smaller than industrial. Industrial is a hodgepodge. In terms of an area assessed, most industrial tends to be larger parcels and most are covered under an assessed area; residential parcels with the buffer means maybe 50% is being assessed.

Discussion:

- Goal is to make everything equitable recognizing some people are paying \$5 for a lot of area and some people are paying same for a small area.

- What constitutes impervious: gravel, clamshell driveway, swimming pools, decks? Formal definitions exist of process used to describe pervious vs. impervious. The GIS processes everything the same way and the graphs explain what it means to a group of users.
- Accomplishing goal would have to be tied into the Building Department to record changes. Soil types are another concern. Looking at property sizes and general locations might be more appropriate to charge an average.
- Data is an introduction into the methodology to be developed. GIS work will help BPW build on other stormwater studies, etc. This is a backbone beginning to move forward.
- Current maps can be regenerated with new data anytime in the future.
- Steve Smailer is currently working with city of Philadelphia. Other jurisdictions have dealt with this in varying ways.
- Inequity complaints will get worse with time because stormwater expense is increasing. Decision was made to find a basis to set the rates for different classes of customers and a rationale for billing.
- James Richmann asked for an agenda item to be added to the June Board Meeting to discuss reduction of stormwater fees by use of natural methods of stormwater control.

13. Proposed amendment to the Capitol Budget for the replacement of the General Manager's vehicle.

(D. Gordon)

INFORMATION:

President Alfred thanked Ken Meham for all his years of service to BPW; he remains on Board until July 31, 2011 helping as Special Projects Manager in the transition. BPW is fortunate to ratify Darrin Gordon's contract as General Manager and to purchase a vehicle as part of the contract.

ACTION:

James Richmann motioned to authorize an amount not to exceed \$20,000 to be added immediately to Capital Budget and as part of same motion to authorize General Manager to expend the amount not to exceed \$20,000 for purchase of a vehicle from State-approved vehicle list for the purpose of his official duties and other uses as necessary as specified in the contract. Candace Vessella seconded the motion. Motion carried unanimously.

14. Meetings attended by Board Members or Staff.

None

15. Board or Staff Requests for Agenda Item(s).

- When final audit is received and approved along with the Electric Consultant Study, Darrin Gordon should schedule a public workshop to bring the Board up to speed on the finances. Ken Meham suggested postponing agenda item until July Board Meeting.
- James Richmann asked for an agenda item to be added to the June Board Meeting to discuss reduction of stormwater fees by use of natural methods of stormwater control.

16. Call to the Public

No questions.

17. Call to the Press

No questions.

James Carmen prepared and read a letter addressed to James L. Ford, Mayor; C. Wendell Alfred, newly elected President; and Darrin Gordon, General Manager of BPW:

"Gentlemen: As you know through prior communication, Carolyn and I will be relocating our residency to the Fenwick Island area which requires my resignation as a Director of the BPW. Please consider said resignation effective May 26, 2011. I was appointed by Mayor Ford, attended my first meeting in February 2006, and have run unopposed in three successive elections. It was encouraging to see a contested election on May 14 with four good candidates and the two winners, Candace Vessella and Preston Lee, each of whom will bring new perspectives to the Board. I leave the Board believing I have always tried to act in the best interest of the citizens of Lewes and I wish continued success for the new Board, the new General Manager, and the Mayor and Council. Lewes is a special place and we leave with fond memories. Respectfully, Jay Carmean"

President Alfred wished Carolyn and Jay the best; they will be missed.

18. Adjournment

Meeting adjourned at 8:45 p.m.

Recorded by: Rosemary Shannon